



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

August 14, 2008

Vice President John Paull called the regular meeting to order at 8:30 a.m. Thursday, August 14, 2008. Roll call was taken with four members of the Board being present, Present Jay Klawon and members Darcy Halpin and Terry Smith were excused. Board members and staff present were:

Roll Call:

John Paull, Vice President
John Nielsen, Member
Ray Peck, Member
Dianna Porter, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Legal Counsel
Scott Miller, Legal Counsel
Ursula Hatfield, Executive Assistant

OPEN MEETING

Nancy Quirino, Great West Retirement Services; Jason Baker, Ed Cleary, and Scott Moore, members of the Montana State Firemen's Association; Steve Bullock and Pam Bucy, MPPA; Jeanine Cole, BKBH; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, DC Education Services Bureau Chief; joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the PERB Legislative Committee Meeting of July 10, 2008 were presented.

Motion: Ms. Dianna Porter moved to approve the minutes of the July 10, 2008 PERB Legislative Committee Meeting.

Second: Mr. John Nielsen

No public comment.

Vote: 4/0

The minutes of the open meeting of August 14, 2008 were presented.

Motion: Mr. John Nielsen moved to approve the minutes of the August 14, 2008 PERB Regular Open Meeting.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

The open meeting minutes of the PERB Special Board Meeting of July 25, 2008 were presented.

Motion: Mr. Ray Peck moved to approve the minutes of the July 25, 2008 PERB Special Board Meeting.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

Public Comment on any subject of interest not on the Board agenda: No public comment.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

Employee Investment Advisory Council (EIAC) Recommendation - Kathy Samson

The Employee Investment Advisory Council (EIAC) advises the Board concerning the operation of the Defined Contribution Retirement Plan (DCRP) and the 457 plans, including the investment alternatives. EIAC is recommending that the Board set the Balanced Fund as the default fund in the 457 Plan. The balanced fund would be replacing the stable value fund as the default investment option.

Motion: Mr. John Nielsen moved to accept the EIAC recommendation and adopt a balanced fund as the default investment option within the 457 deferred compensation plan.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

Deferred Compensation (DC) Plans Plan Document Amendments – Kathy Samson and Melanie Symons

The Deferred Compensation (457) Plan document and PERS-Defined Contribution Retirement Plan document need to be amended. The DCRP Plan document needs to be ready for the Cycle C filing with the IRS. ICE Miller, tax counsel is currently reviewing MPERA's changes. ICE Miller has completed review of The Deferred Compensation Plan (457) Document. MPERA has a private letter ruling on the previous plan document. ICE Miller has asked if MPERA would like to request a private letter ruling on the plan document as amended.

Motion: Ms. Dianna Porter moved to uphold staff recommendation adopting the 457 Plan Document as revised by ICE Miller, the PERB's tax counsel.

Second: Mr. John Nielsen

No public comment.

Vote: 4/0

Motion: Ms. Dianna Porter moved to direct staff to pursue a private letter ruling from the IRS.

Second: Mr. Ray Peck

No public comment.

Vote: 4/0

Board Policy Revision – Board Funding and Benefits Policy - Scott Miller

The PERB's Funding and Benefits Policy (BOARD Admin 01) required a revision to accommodate the change from biennial to annual actuarial valuations and removal of the reference to the actuarial assumed rate of return of 8%. The interest rate is now included in rule.

Motion: Mr. John Nielsen moved to approve the revisions to the PERB Funding and Benefits Policy (BOARD Admin 01) policy.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

Medical Consultation Services Contract Addendum – Scott Miller

The contract between the Board and Robert Bateen, PhD expired June 30, 2008. MPERA is proposing an addendum to the contract, extending the term through June 30, 2011. The addendum also includes a minimum one hour billing for each trip to MPERA.

Motion: Mr. John Nielsen moved to approve the addendum to the agreement with Dr. Bateen.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

November Board Retreat/Board Meeting

Last month the Board approved a retreat for Friday, November 14, the day after the regular November Board meeting. Because the Board meetings usually adjourn between 2-3, staff recommends that the Board meeting be held Friday and the Retreat on Thursday. Staff is beginning to prepare for the retreat and feel it will be a full day, including a lunch with MPERA staff.

Motion: Mr. John Nielsen moved to uphold staff recommendation and move the Board Retreat to Thursday, November 13 and the Board meeting to Friday, November 14, 2008.

Second: Mr. Ray Peck

No public comment.

Vote: 4/0

Out of State Travel Authorizations – Roxanne Minnehan

The Board must approve all out-of-state travel. All travel requests were included in the FY 2009 Approved Budget. MPERA has a new internal auditor position. Renae Deadmond has been in the position since March. She has been documenting and evaluating internal controls, working on 125 Plan employer audits and as a member of the Policy Committee. She will be a contact for the external auditors. These two training requests will be very beneficial for Renae and MPERA. The APPFA has been recommended to us by Nevada and North Dakota.

Government Finance Officers Association (GFOA) Evaluating Internal Controls, Sacramento, CA, September 15 – 17 - Renae Deadmond

The GFOA seminar is being held in Sacramento, CA, September 15 through September 17. The seminar will cover the essential elements of a comprehensive framework of internal controls and the study of control-related policies and procedures from a state and local government perspective.

The Board members pointed out the internal auditor was scheduled for two conferences. Ms. Minnehan explained the importance for Renae to attend both conferences. The Board discussed approving GFOA and postponing a decision on the APPFA conference until September.

Motion: Ms. Dianna Porter moved to approve Renae Deadmond to attend the GFOA seminar covering "Evaluating Internal Controls" in Sacramento, CA, Monday, September 15 through Wednesday, September 17, 2008.

Second: Mr. John Nielsen

No public comment.

Vote: 4/0

Association of Public Pension Fund Auditors (APPFA) Annual Conference – Charleston, SC, November 2-6 – Renae Deadmond

APPFA brings together the state pension fund auditors to highlight upcoming issues and provides topics such as challenges, opportunities and emerging practices in internal auditing. It also provides a great networking opportunity.

Motion: Ms. Dianna Porter moved to allow Renae Deadmond to attend the Association of Public Pension Fund Auditors, Inc. Annual Conference in Charleston, SC, Sunday, November 2 through Wednesday, November 6, 2008.

Second: Mr. John Paull

No public comment.

Vote: 2/2 with Mr. Nielsen and Mr. Peck voting nay.

Motion: Mr. John Nielsen moved to postpone a decision on the APPFA Conference to the September Board meeting.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

National Association for Government Training and Development (NAGTAD) Annual Conference, Columbia, SC, October 26-29 – Angel Molyneux and Joel Thompson

The MPERA training staff has attended the NAGTAD in the past. The state's Professional Development Center (PDC) trainers also attend this conference. The concern raised was allowing staff a "trip" each year and that the Governor's Office is requesting a reduction of travel. Ms. Minnehan assured the Board these conferences are an important part of MPERA's investment in staff development.

Motion: Mr. John Paull moved to approve Joel Thompson and Angel Molyneaux, training and education specialists, to attend the National Association of Government Training and Development annual conference in South Carolina.

Second: Ms. Dianna Porter

No public comment.

Vote: 3/1 with Mr. Peck voting nay.

2009 Draft Legislation

The Board packet included drafts of the general revisions, qualifications and working retiree bills. Also, included were tables identifying the proposed changes. The bill drafts are due September 15, 2008. Most of the changes to the qualifications bill are recommended by our tax consultants, ICE Miller to meet IRS requirements for our Cycle C filing. The general revisions bill is a "clean-up bill" to clarify statute and remove outdated terminology. Ms. Minnehan pointed out some of the more complicated proposed changes. She and staff then answered questions asked by the Board. Staff will continue to work on the bill drafts, providing the Board an updated version at their September Board meeting.

.

Board Education – Deferred Retirement Option Plans (DROP) – Kim Flatow and Roxanne Minnehan

The MPORS DROP has been high profile recently; MPERA thought it would be a good education topic for the Board. Roxanne Minnehan presented an overview of DROPs in general and the different options and varieties of DROP. Kim Flatow provided MPORS DROP specific information, including the administration and distribution of DROP accounts.

DROP is a defined benefit plan design feature. It was originally found in city sponsored government plans as a means for employers to: 1) retain experienced police and fire employees and 2) plan for new hires based on DROP retirement dates. Employees like the idea of a large lump-sum of money at retirement. A DROP is an option for active members. It is not mandatory. It allows members who elect DROP the option to continue to work beyond their normal retirement date, converting the value of part of the retirement benefit into a lump-sum. The member must give up future service and pay increases for the annuity calculation. Under a DROP, the annuity is frozen but the employee begins to accumulate a lump-sum. The member's monthly benefit builds in a DROP account until the member severs employment. Payments are made when the employee stops working. Three issues with a DROP are: 1) design – each DROP is uniquely designed, 2)

costs “the design is structured, based on the plan’s design, to be as cost neutral as possible” and 3) controversy – large payouts can make negative headlines as windfalls or double-dipping.

In the MPORS DROP the member’s DROP account is credited with GABA and the last known fiscal year interest rate earned by the trust fund but may not be less than zero. Fiscal year 2007 interest rate was 17.89%. Fiscal year 2008 interest rate is -5.07%.

Verbal Update – 2008 FY End Budget Report – Barbara Quinn

Overall the budget is in good standing. All expenses for the year have been paid. MPERA expended 90.84% on personal services, 67.23% other services, 86.27% supplies and materials, 38.16% communications, 50.54% travel, 99.25% rent, 42.56% repairs and maintenance, 75.62% expended overall. The Defined Benefit Retirement Plans are 79.25% expended. The DC Plans are one million under cap for FY 2008. The Defined Contribution Education has over spent their budget by \$1,132. This has been changed for the FY 2009 budget.

Limiting Employers to One 457 Plan – Kathy Samson

Employers may contract with the Board in order to belong to the 457 plan administered by MPERA and over seen by the Board. In the State of Montana Public Employee Deferred Compensation Plan under 3.02, “The political subdivision must agree that employees may make contributions to only this Plan, not to additional 457 plans sponsored by that subdivision.” It also states that the employees may roll-over the balance from the other plan, or leave the balance in the old plan; however, the employer must enter new contributions into the plan contracted with the Board. The reason for the limitation is the plan sponsor (Board) is responsible for IRS requirements including salary deferral limitations. If there is more than one 457 plan provider than the Board cannot ensure that salary deferral limitations are adhered to across all plans.

Verbal Update – MPERA Staffing – Roxanne Minnehan

DB Accounting Clerk was filled by John Barbagello. John’s start date was Monday, August 11, 2008. He has 10 prior years experience with the state. He has a double major in economics and business administration.

File Clerk position is open. Interviews have been conducted. The position has been offered, the applicant has stated that the salary is too low and has given a counter offer. This person has over 20 years of experience MPERA is currently talking with the union to obtain agreement to offer more than entry level.

Pay/Benefit Technician has resigned, Barb Tompkins last day is August 22, 2008. It has been posted internally.

Disabilities Examiner, is currently open and has not been posted.

IT Programmer is currently open and has not been posted.

Administrative Support, Member Services is a new position and a job profile has yet to be finalized.

Verbal Update – Board of Investments (BOI) – John Paull

The Rate of Return is down for FY 2008. Public Employees Retirement System's total returns are -4.65% and the net is -4.86%. The good news is the rate of return did beat the benchmark established by State Street Bank. The DROP rate of return doesn't go below zero, but net was -5.01%. The benchmark is created and maintained by State Street Bank, the master custodian for BOI. The benchmark is calculated daily using the actual allocation. The net is net of external manager fees. The next BOI meeting is Tuesday, August 19, 2008.

Verbal Update – Litigation – Melanie Symons, Scott Miller

No updates during open meeting.

Verbal Update – NASRA Conference Report – Roxanne Minnehan

Ms. Minnehan attended the annual NASRA conference held in Snowbird, UT. Ms. Minnehan uses this conference as a networking tool to interact with other state pension organizations. We are all in the same business and facing the same concerns. As much as we are alike we are also different. For example, board members are "appointed" differently in each state. Several sessions provided Ms. Minnehan with information to share with other staff – including online member service access and the Roll Call of the States. Before the conference attendees send in their issues and topics of interest. They are then included in a bound book, arranged alphabetical order by state. This becomes a take away reference and allows the states to interact with other states about their experiences with legislation, plan governance, IT projects, etc.

Next SAVA Meeting

September 15, 2008

Next Board Meeting

September 11, 2008
October 9, 2008
November 14, 2008
December 11, 2008

Board Retreat

November 13, 2008

FY 2008 Rates of Return

Given during BOI verbal update.

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

Reconvene of open meeting

The minutes of the regular closed meeting of July 10, 2008 were presented.

Motion: Ms. Dianna Porter moved to approve the minutes of the July 10, 2008 PERB Regular Closed Meeting.

Second: Mr. Ray Peck

Vote: 4/0

The minutes of the PERB Special Board Meeting of July 25, 2008 were presented.

Motion: Mr. Ray Peck moved to approve the closed minutes of the July 25, 2008 Special Board Meeting.

Second: Mr. John Nielsen

Vote: 4/0

Contested Cases

Informal Reconsideration – PERS, Retirement Effective Date, BJ – Kim Flatow

Motion: Mr. John Nielsen moved to uphold their previous decision that BJ returned to work early and is ineligible to receive her retirement benefits for March, April and May 2008.

Second: Mr. Ray Peck

Vote: 4/0

Finalized Service Retirements Disability Benefit Payments - Kim Flatow

Motion: Mr. John Nielsen moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum with corrections.

Second: Ms. Dianna Porter

Vote: 4/0

Contested Case/Litigation Updates – Melanie Symons, Scott Miller

The MPPA case was discussed during closed meeting.

Motion: Mr. John Nielsen moved to adopt the protective order with full date of birth and decline to appeal the MPPA case.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0

ADJOURNMENT

There being no further business before the Board, Mr. John Nielsen moved to adjourn the meeting, Ms. Dianna Porter seconded. All voted aye, next regular meeting will be September 11, 2008. Meeting closed at approximately 2:30.